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TO AMEMBASSY PARIS IMMEDIATE

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LIMDIS

FOR ASSISTANT SECRETARY ENDERS

FOLLOWING SENT ACTION SECSTATE INFO RIO DE JANEIRO

SAO PAULO MAR 25

QUOTE S E C R E T BRASILIA 2226

LIMDIS

E.O. 11652: GDS

TAGS: OVIP, PFOR, ECON, ENRG, PARN, ETRD, EFIN, BR

SUBJECT: POSSIBLE THEMES AND INITIATIVES FOR

SECRETARY'S VISIT TO BRAZIL - AN OVERVIEW

FOR ASSISTANT SECRETARY ROGERS FROM AMBASSADOR

FOR S/P - WINSTON LORD; EB - ASSISTANT SECRETARY ENDERS;

OES - ASSISTANT SECRETARY RAY

SECOND PART

B: TRADE

8. WE BELIEVE THE SECRETARY SHOULD BE PREPARED TO MEET
TRADE ISSUES -- QUESTIONS ABOUT THE TRADE ACT AND MAJOR

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BILATERAL ISSUES -- HEAD ON. IN THIS RESPECT, SIMONSEN'S
ADVICE SEEMS TO US REALISTIC. EXPORT DIVERSIFICATION
REMAINS THE FOUNDATION OF BRAZIL'S DEVELOPMENT STRATEGY --

THE BRAZILIAN "ECONOMIC MODEL" -- AND US APPLICATION OF THE TRADE ACT, THEREFORE, IS OF CENTRAL CONCERN TO THE GOB. THERE IS DEEP AND GROWING PREOCCUPATION WITHIN THE GOB WITH BRAZIL'S EXPORT PROSPECTS DURING THE CURRENT GLOBAL RECESSION. AS REIS VELLOSO SAID TO YOU, THE US MARKET REMAINS CRITICAL FOR THE GOB. BRAZILIAN POLICY MAKERS ARE SENSITIVE TO WHAT THEY PERCEIVE AS THE GROWING STRENGTH OF PROTECTIONIST FORCES IN THE US. (FOR PRESIDENT'S GEISEL'S PUBLIC WARNING - SEE BRAZILIA'S 1730.) ALTHOUGH CONGNIZANT OF A BASIC IDENTITY OF US AND BRAZILIAN INTERESTS IN THE MTN, THEY ARE CONCERNED THAT, DESPITE THE EXECUTIVE'S BEST EFFORTS, THESE FORCES WILL PREVAIL AND THAT THE TRADE ACT, FAR FROM SERVING THE CAUSE OF TRADE LIBERALIZATION, WILL BECOME AN INSTRUMENT OF RESTRICTION, A WEAPON OF RETALIATION.

9. THE OTHER POINT TO MAKE IS THAT, AS CABRAL DE MELLO EMPHASIZED, SPECIAL, DIFFERENTIAL MEASURES FOR LDCS ARE BASIC TO BRAZIL'S APPROACH TO THE MTN. BRAZIL PURSUES THIS COURSE BOTH OUT OF ECONOMIC SELF-INTEREST AND PHILOSOPHIC CONVICTION. IT HAS MADE A SERIES OF DETAILED PROPOSALS IN GENEVA FOR ITS IMPLEMENTATION, TO WHICH THE US, WHILE REACTING SYMPATHETICALLY, STILL HAS TO RESPOND IN SPECIFIC TERMS.

10. IN LIGHT OF THESE CONSIDERATIONS, AND TAKING ACCOUNT OF THE THOUGHTS EXPRESSED TO YOU BY SIMONSEN AND CABRAL DE MELLO, THE EMBASSY SUGGESTS:

(A) A PUBLIC STATEMENT BY THE SECRETARY REAFFIRMING THE USG'S COMMITMENT TO USE THE TRADE ACT AS AN INSTRUMENT OF TRADE LIBERALIZATION THROUGH VIGOROUS PURSUIT OF THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA.

(B) A STATEMENT BY THE SECRETARY THAT THE USG LOOKS WITH FAVOR ON CERTAIN OF THE SPECIFIC MEASURES PROPOSED BY THE GOB TO PROVIDE SPECIAL TREATMENT FOR LDCS IN THE MTN; AND

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(C) A COMMITMENT BY THE SECRETARY TO EARLY HIGH-LEVEL BILATERAL CONSULTATIONS BETWEEN THE US AND BRAZILIAN DELEGATIONS IN GENEVA FOR THE PURPOSE OF:

(1) IDENTIFYING AREAS OF AGREEMENT BETWEEN THE TWO DELEGATIONS WITH RESPECT TO SPECIFIC TARIFF MEASURES TO BE NEGOTIATED IN THE MTN, AND

(2) AGREEING ON A STRATEGY FOR THE DEALRLY NEGOTIATION OF A MULTILATERAL CODE ON SUBSIDIES AND COUNTERVAILING DUTIES WHICH WOULD PROVIDE DIFFERENTIAL FAVORABLE TREATMENT FOR LDCS.

11. AS SIMONSEN NOTED, THERE CONTINUES TO BE GREAT CONFUSION ON ALL ASPECTS OF THE TRADE ACT. EVEN THE MAJOR BRAZILIAN PAPERS TEND TO REMAIN BLIND TO ITS ESSENTIAL PHILOSOPHY AND NEGOTIATING AUTHORITY. AN AUTHORITATIVE STATEMENT BY THE SECRETARY HERE IN BRAZIL WOULD BE HELPFUL IN CLARIFYING THE ACT'S BASIC PURPOSES. SUCH A STATEMENT WOULD HAVE FAR GREATER CREDIBILITY, HOWEVER, IF IT WERE COUPLED WITH SOME CONCRETE EXPRESSION ON THE TWO PRINCIPAL BRAZILIAN CONCERNS IN THE TRADE AREA.

12. IN ESSENCE, BRAZIL HAS PROPOSED FIVE MAJOR CONCEPTS WHICH WOULD REQUIRE FRESH EXAMINATION IN WASHINGTON IN CONNECTION WITH A STATEMENT BY THE SECRETARY THAT THE US LOOKS WITH FAVOR ON SOME OF BRAZIL'S PROPOSALS.

(A) THE CONCEPT OF A SPECIAL PRODUCT LIST FOR WHICH PARTICULARLY DEEP TARIFF CUTS WOULD BE SOUGHT, ON AN MFN BASIS, BEYOND THE AVERAGE LINEAR CUT.

(B) THE ACCELERATED IMPLEMENTATION OF TARIFF CONCESSIONS FOR LDCS.

(C) THE NOTION THAT PREFERENTIAL MARGINS SHOULD BE MAINTAINED OVER AN EXTENDED PERIOD FOR A SPECIAL LIMITED LIST OF PRODUCTS WITHIN THE GSP SYSTEM (ONE POSSIBLE WAY WOULD BE TO LIMIT MFN CONCESSIONS FOR THESE PRODUCTS AMONG DCS TO LESS THAN THE LINEAR CUT, OR

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TO IMPLEMENT THE CONCESSIONS MORE SLOWLY AMONG THE DCS).

(D) GATT BINDINGS FOR THE PREFERENCES UNDER THE GSP TO PROTECT BENEFICIARIES AGAINST SUDDEN UNILATERAL WITHDRAWALS -- A MAJOR BRAZILIAN CONCERN.

(E) THE CONCEPT THAT AT LEAST THE MORE DEVELOPED AMONG THE LDCS SHOULD BE PREPARED TO MAKE RECIPROCAL CONCESSIONS, AT LEAST PARTIALLY, FOR SPECIAL BENEFITS OBTAINED IN THE MTN RATHER THAN ACCEPTING THESE BENEFITS AS A UNILATERAL CONCESSION FROM THE DCS.

13. THESE PROPOSALS HAVE AT VARIOUS TIMES BEEN DISCUSSED BETWEEN THE TWO GOVERNMENTS, ALTHOUGH ALWAYS INCONCLUSIVELY, AT THE EBERLE-MALMGREN LEVEL. THE FIRST TWO MIGHT BE FAIRLY READILY ADAPTABLE TO US NEGOTIATING STRATEGY, AT LEAST IN PART. WITH THE ACTUAL NEGOTIATIONS ABOUT TO BEGIN, A FURTHER, MORE CONCRETE CONSULTATION, AIMED AT SPECIFIC UNDERSTAND-

INGS, WOULD BE HIGHLY DESIRABLE. AS YOU RECALL, THIS WAS ONE OF THE PRINCIPAL POINTS MADE TO YOU IN YOUR CONSULTATIONS.

14. THE SITUATION WITH RESPECT TO EXPORT SUBSIDIES AND COUNTERVAILING DUTIES IS VERY SIMILAR. THE BRAZILIAN APPROACH ENTAILS TWO BASIC CONCEPTS:

(A) A MORE SPECIFIC ARTICULATION, IN TERMS OF A LIST OF PERMISSIBLE SUBSIDIES, OF THE RIGHT OF LDCS TO PROVIDE EXPORT INCENTIVES, WITHOUT INCURRING COUNTERVAILING DUTIES, THOUGH CLARIFICATION AND AMENDMENT OF THE APPROPRIATE ARTICLES OF THE GATT; AND

(B) THE INSERTION OF AN INJURY DETERMINATION WITH RESPECT TO COUNTERVAILING DUTY ACTIONS AGAINST IMPERMISSIBLE EXPORT INCENTIVES.

15. THE EMBASSY BELIEVES THE SECRETARY SHOULD BE ABLE TO RESPOND AT LEAST IN GENERAL TERMS TO QUESTIONS ABOUT
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THE US APPROACH IN THE FORTHCOMING NEGOTIATIONS ON COUNTERVAILING DUTIES (NOW SCHEDULED TO BEGIN IN JUNE). AS YOU KNOW, RAPID PROGRESS IN THIS AREA IS A MATTER OF URGENCY. PROSPECTS FOR MODIFICATION OF THE BRAZILIAN INCENTIVE SYSTEM (RAISED WITH REIS VELLOSO DURING YOUR VISIT) SEEM SLIGHT. VIRTUALLY ALL BRAZILIAN EXPORTS OF MANUFACTURED AND SEMI-MANUFACTURED GOODS ARE VULNERABLE TO COUNTERVAILING DUTY COMPLAINTS UNDER THE TIGHTENED PROCEDURES OF THE TRADE ACT UNTIL A MULTILATERAL CODE IS NEGOTIATED AND ENACTED. IN THE EMBASSY'S VIEW, THE BRAZILIAN POSITION, PARTICULARLY IN CONNECTION WITH POINT A, HAS A CERTAIN LOGIC AND FORCE, AND, WE BELIEVE, SHOULD BE ADDRESSED SYMPATHETICALLY IN THE FORMULATION OF A US POSITION.

C. COMMODITY POLICY

16. DESPITE EXPORT DIVERSIFICATION, COFFEE REMAINS EXTREMELY IMPORTANT IN BRAZIL, IN POLITICAL AS WELL AS ECONOMIC TERMS. (IN 1974, COFFEE AND TWO OTHER COMMODITIES-- SUGAR AND SOYBEANS--ACCOUNTED FOR SOME 40 PERCENT OF BRAZIL'S TOTAL EXPORTS.) A FORTHCOMING, FAIRLY SPECIFIC STATEMENT BY THE SECRETARY, INDICATING THAT THE US IS SYMPATHETIC TO BRAZILIAN VIEWS, WOULD HAVE TREMENDOUS PSYCHOLOGICAL BENEFITS THROUGHOUT BRAZIL. THERE ARE FEW THINGS THE SECRETARY COULD DO WHICH WOULD MORE DRAMATICALLY SIGNAL TO THE BRAZILIAN PUBLIC THE CONTINUING VALUE OF THE US-BRAZILIAN RELATIONSHIP.

17. THIS IS A PARTICULARLY OPPORTUNE MOMENT FOR SUCH AN INITIATIVE. A FIRST ROUND OF BILATERAL US-BRAZILIAN TALKS ON COFFEE HAVE JUST BEEN HELD--REALIZING A LONG-SOUGHT BRAZILIAN OBJECTIVE. AS A RESULT OF THE RECENT WEAKENING OF COFFEE PRICES AND POOR EXPORT PERFORMANCE, THERE IS GROWING CONCERN, WITHIN THE GOB, ABOUT THE MARKET OUTLOOK FOR THIS YEAR'S COFFEE CROP. THE BRAZILIAN PRESS IS FILLED ALMOST DAILY WITH ACCOUNTS OF THE ECONOMIC SQUEEZE ON COFFEE PRODUCERS, AND THERE IS A NEW SENSE OF URGENCY ABOUT THE EARLY CONCLUSION OF A NEW INTERNATIONAL AGREEMENT.

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18. THE EMBASSY SUGGESTS:

(A) ON COMMODITY POLICY: A PUBLIC STATEMENT BY THE SECRETARY, ALONG THE LINES OF SIMONSEN'S SUGGESTION, REAFFIRMING US SUPPORT FOR COMMODITY AGREEMENTS DESIGNED TO MAINTAIN REASONABLE AND EQUITABLE PRICES WHEN TECHNICAL ANALYSIS DEMONSTRATES THEIR FEASIBILITY.

(B) ON COFFEE: A STATEMENT THAT THE TWO GOVERNMENTS ARE MOVING TOWARD A SUBSTANTIAL MEASURE OF AGREEMENT ON THE MAJOR ELEMENTS OF A NEW COFFEE ARRANGEMENT; THAT THE TWO COUNTRIES, AS THE WORLD'S MAJOR PRODUCER AND CONSUMER, HAVE BEEN IN CLOSE CONTACT AND WILL WORK CLOSELY TOGETHER IN THE LONDON MEETINGS; AND THAT THE SECRETARY HAS INSTRUCTED (OR, AS AN APPARENT RESULT OF THE VISIT, IS INSTRUCTING) THE US DELEGATION TO HELP SPEED UP THE NEGOTIATIONS AND PUSH FOR AGREEMENT.

(C) SUGAR AND SOYBEANS: POSSIBILITIES ARE A FORTH-COMING STATEMENT ABOUT US ATTITUDE TOWARD THE INTERNATIONAL SUGAR AGREEMENT, US INTEREST IN BRAZIL AS A LONG-TERM SUPPLIER OF THE US MARKET, AND AN EXPRESSION OF US WILLINGNESS TO COOPERATE FOR MUTUAL BENEFIT WITH BRAZIL AS THE WORLD'S SECOND LARGEST SOYBEAN EXPORTER.

19. THE COMMITMENT ON COFFEE WOULD ENTAIL FURTHER WORK, EITHER PRECEDING THE SECRETARY'S VISIT OR IMMEDIATELY AFTERWARDS, IN AN EFFORT TO NARROW THE REMAINING DIFFERENCES IN THE US AND BRAZILIAN POSITIONS. AS IT ASSUMES THAT EXISTING DIFFERENCES ON THE TECHNICAL ASPECTS OF AN AGREEMENT CAN BE BRIDGED, AND THAT REASONABLE COMPROMISES CAN, IF NECESSARY, BE WORKED OUT QUICKLY, IN A MANNER SATISFACTORY TO BOTH SIDES. GIVEN THE CURRENT BRAZILIAN SENSE OF URGENCY ABOUT A COFFEE AGREEMENT, THIS DOES NOT SEEM AN UNREASONABLE TASK.

20. THE COMMITMENT WOULD ALSO ENTAIL SOME MARGINAL BUT,

IN THE NET, FAIRLY SIGNIFICANT SHIFTS IN US NEGOTIATING
TACTICS. WHILE THE US HAS TENDED TO EMPHASIZE THE MULTI-
LATERAL ASPECTS OF THE NEGOTIATION PROCESS--WHICH HAS
PERMITTED THE US TO PLAY A LESS CONSPICUOUS, RELATIVELY

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PASSIVE ROLE AS ONE AMONG SEVERAL MAJOR CONSUMERS--
US NEGOTIATORS WOULD HENCEFORTH TAKE A MORE ACTIVIST
STANCE IN THE LONDON MEETINGS. AS A PRACTICAL MATTER,
THE US AND BRAZILIAN ATTITUDES WILL BE DECISIVE FOR THE
SUCCESSFUL COMPLETION OF THE NEGOTIATIONS. THE
MODIFIED APPROACH WOULD EXPLICITLY ACCEPT THIS CENTRAL
FACT.

CRIMMINS

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